

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**CONTRACTORS FOR THE LOW-INCOME
HOME ENERGY ASSISTANCE PROGRAM IN
SANTA CLARA COUNTY HAVE NOT FULLY
COMPLIED WITH THEIR STATE CONTRACTS**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-668

CONTRACTORS FOR THE LOW-INCOME HOME ENERGY
ASSISTANCE PROGRAM IN SANTA CLARA COUNTY
HAVE NOT FULLY COMPLIED WITH THEIR STATE CONTRACTS

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Auditor General

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P-668

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Low-Income Home Energy Assistance Program in Santa Clara County. The report shows that the low-income home energy assistance contractors in Santa Clara County have not always spent energy assistance funds according to their contracts or complied with reporting requirements of their contracts with the Department of Economic Opportunity.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

The State of California contracts with nonprofit organizations in each county to administer the federally funded Low-Income Home Energy Assistance Program (LIHEAP). The Economic and Social Opportunities, Inc. (ESO), and The Welfare Recipients League, Inc. (WRL), which have administered this program in Santa Clara County since 1981, have made numerous allegations of mismanagement against each other. In reviewing these allegations, we noted the following conditions:

- Since 1983, the WRL has administered approximately \$1 million in LIHEAP funds and has spent approximately \$30,000 of this amount for questionable items such as rent subsidies, loans and salary advances, and babysitting fees. These expenditures are questionable because the money was spent on items that do not appear to be related to the energy assistance program.
- The ESO has regularly failed to submit required contractual reports on time. Some of the ESO's contract reports, which the department uses to account for energy assistance funds, have been up to 76 days late. However, we conclude that this is a minor administrative problem that does not involve missing funds.

BACKGROUND

The Department of Economic Opportunity (department) is responsible for administering the LIHEAP in California. The LIHEAP is funded through a federal grant and consists of three programs--the Home Energy Assistance Program, the Energy Crisis Intervention Program (ECIP), and the Weatherization Program. The department contracts with both public and private local agencies to administer the ECIP and the Weatherization Program.

Since 1981, the department has contracted with the ESO and the WRL, two nonprofit local agencies in Santa Clara County. Except for 1985, when the WRL did not receive a contract, these organizations held contracts from 1981 through 1986. Both the ESO and the WRL have alleged that the other has not complied with the terms of the LIHEAP contracts. In addition, the ESO alleged that the department did not properly evaluate its contract proposals. See Appendix A for a list of all of the allegations made by the two contractors and our analysis of them.

PRINCIPAL FINDINGS

The Welfare Recipients League, Inc. Made
Questionable Expenditures and Travel
Overpayments From the Low-Income Home
Energy Assistance Program Funds

In contract years 1983-84 and 1986, the WRL received about \$1 million in LIHEAP funds. Over \$30,000 of this amount was spent for questionable purposes, including food for a food closet, payment for veterinary services, babysitting fees, payroll advances and loans to the WRL's executive director and five other employees, undocumented retroactive pay, and rent subsidies to volunteer workers. These expenditures are questionable because they do not appear to be related to the energy assistance program. We could not conclude that the expenditures were inappropriate because we could not review all of the WRL's financial records. According to the president of the WRL's board of directors, the financial records for contract year 1983-84 were destroyed or stolen during a burglary of the WRL's office.

In addition to the approximately \$30,000 in questionable expenditures, in contract year 1983-84, the president of the WRL's board of directors was overpaid more than \$3,100 for travel reimbursements and could not provide documentation for another \$1,700 in travel reimbursements.

Because the WRL made questionable expenditures, the department does not know if LIHEAP funds

were appropriately disbursed and accounted for. Furthermore, unless the department recovers energy assistance funds that are inappropriately spent, the State is liable for these funds.

In 1984, we reported similar deficiencies in 8 of 12 community agencies with which the department contracted. Although the department has partially implemented our previous recommendations to monitor the LIHEAP contractors, deficiencies similar to those found in 1984 continue to exist.

The Economic and Social Opportunities,
Inc., Has Not Always Met Its
Contractual Reporting Requirements

Our review disclosed that, from 1981 through 1986, the ESO received six LIHEAP contracts totaling approximately \$2.4 million. In 1983, the department established deadlines for the fiscal and program report due at the end of the contract period. Since 1983, the ESO has submitted three of these reports on time and one report late. The ESO was also up to 76 days late in submitting required monthly reports to the department. All of these reports account for energy assistance funds. However, we conclude that this is a minor administrative problem that does not involve missing funds.

RECOMMENDATIONS

The department should discontinue contracting with nonprofit organizations that consistently fail to spend energy assistance funds according to the requirements of their contracts until these organizations can demonstrate that they have the fiscal controls for meeting these requirements.

The department should conduct on-site reviews of contractors with known deficiencies to verify that these contractors have taken action to correct the deficiencies.

Finally, the department should review the WRL's expenditures and collect all improperly spent funds.

AGENCY COMMENTS

The Department of Economic Opportunity concurred with the findings in our report. In response to our recommendations, the department pointed out that state and federal mandates limit the number of agencies that are eligible to receive energy assistance funds. Because of this limitation, the department exerts considerable effort to monitor and assist agencies with which it contracts to support their reasonable performance. In addition, the department stated that only in extreme cases, when major deficiencies are not corrected, should the department discontinue contracting with an agency. The department also stated that all questioned and disallowed costs identified through independent audits are resolved or collected from the contractor.

The Welfare Recipients League, Inc., maintains that the questionable costs identified in our report were appropriate either because the LIHEAP program was reimbursed from the WRL's general account or because an independent audit of WRL's 1983-84 financial records did not reveal any inappropriate expenditures.

The Economic and Social Opportunities, Inc., did not take any exception to the findings in our report. The ESO stated that the Department of Economic Opportunity's reporting deadlines were unreasonable and noted that the department has recently extended the time limits for submitting reports. The ESO does not anticipate any problem in complying with the new time limits.

INTRODUCTION

The Department of Economic Opportunity (department), formerly the Office of Economic Opportunity, is responsible for administering the Low-Income Home Energy Assistance Program (LIHEAP) in California. To receive funds for this program, the department must apply to the federal Department of Health and Human Services and must annually prepare a state plan that describes how it will ensure that federal funds will be allocated and used in accordance with federal guidelines.

The department funds three programs under the LIHEAP: the Home Energy Assistance Program, the Energy Crisis Intervention Program (ECIP), and the Weatherization Program. Under the Home Energy Assistance Program, the department provides up to \$400 per year to low-income households to help offset their energy costs. Under the ECIP, the department provides eligible households with up to \$300 each year; under certain emergency conditions, an eligible household may receive up to \$400. The ECIP provides emergency cash assistance to eligible households that do not have sufficient funds to establish service with a utility, to pay current or delinquent utility bills, or to prevent a utility company from terminating service. Finally, the Weatherization Program helps eligible households to achieve long-term savings through energy conservation measures such as attic insulation and weatherstripping. The department allows up to \$1,300 per housing unit for weatherization services.

The department contracts with local public or private nonprofit agencies to administer the ECIP and weatherization components of the LIHEAP. In 1986, the department had 77 LIHEAP contracts with 61 nonprofit agencies throughout California. Fourteen of the 61 agencies had separate contracts to provide energy assistance services in more than one area. Statewide, the department's LIHEAP contracts totaled approximately \$37.2 million. Before 1985, the department contracted separately for the ECIP and the Weatherization Program, but since 1985, the department has usually combined these programs in a single contract. Also since 1985, in those counties where more than one agency was available to administer the energy assistance programs, the department has awarded the contracts on a competitive basis.

In Santa Clara County, the department has contracted with two local nonprofit agencies: The Welfare Recipients League, Inc. (WRL), and the Economic and Social Opportunities, Inc. (ESO). From 1981 through 1984, the department contracted with the WRL to provide only ECIP services within certain areas of the county. In 1986, the department contracted with the WRL to provide services through both the ECIP and the Weatherization Program. The ESO has had LIHEAP contracts each year from 1981 through 1987 to provide services through both the ECIP and the Weatherization Program.

In 1986, when the ESO and the WRL had contracts for both ECIP and weatherization services in Santa Clara County, each agency was

responsible for separate areas within the county. In 1986, the department's LIHEAP contracts in Santa Clara County totaled over \$890,000.

Previous Auditor General Reports on
the Department of Economic Opportunity

Since 1983, the Office of the Auditor General has issued five reports on the department's administration of the LIHEAP. Appendix B presents a summary of our previous reports on the issues discussed in this report and discusses the department's efforts to implement our previous recommendations regarding the administration of the LIHEAP. Two of the four reports concern issues that we discuss in this report.

In Report F-266, a letter issued to the Joint Legislative Audit Committee in April 1983, we reported, among other things, that from July 1, 1981, to December 31, 1982, the ESO had not maintained adequate, auditable accounting records and, therefore, had not complied with federal and state accounting, reporting, and auditing requirements. The report concluded that, because of these deficiencies, the ESO had not complied with the provisions of its contract with the State. The report also stated that the ESO had not obtained and submitted financial audit reports to the department for 13 weatherization grants and low-income energy programs. The report concluded that the ESO failed to comply with the department's reporting requirements and could lose funding on current and future contracts.

In Report P-412, entitled "The Office of Economic Opportunity Has Not Controlled Public Funds Properly," issued in June 1984, we reported, among other things, that the department had poor control over federal funds from the LIHEAP and over the community agencies with which it contracted. The report concluded that some contractors had misused or made questionable expenditures of federal funds and pointed out that the State is liable to the federal government for federal funds under the State's jurisdiction that are spent improperly.

SCOPE AND METHODOLOGY

The objective of this audit was to determine the validity of allegations made about the ESO, the WRL, and the department's administration of the LIHEAP. We also reviewed the appropriateness of the WRL's expenditures of LIHEAP funds, and we evaluated the department's progress in implementing previous recommendations made by the Office of the Auditor General.

Both the ESO and the WRL made allegations that the other was not complying with its LIHEAP contract to provide energy assistance services in Santa Clara County. The allegations were primarily concerned with contracts for federal fiscal year 1983-84 and for calendar year 1986. The ESO's allegations included a claim that the WRL improperly spent LIHEAP funds. The WRL alleged that the ESO did not meet its contractual reporting requirements and that the ESO owed the department money.

To determine whether the WRL inappropriately spent LIHEAP funds, we reviewed federal and state policies and the department's guidelines for spending LIHEAP funds in federal fiscal year 1983-84 and in 1986. We examined the WRL's documentation for travel reimbursements made to the president of the WRL's board of directors, and we verified the accuracy of the computations for the travel reimbursements. Further, we examined available financial documents to determine whether the WRL issued pay advances to its employees, paid for veterinary services, and subscribed to cable television with LIHEAP funds, as the ESO alleged.

To determine whether the ESO submitted required reports on time and whether the ESO owed the department money from previous contracts, we reviewed the department's reporting requirements for LIHEAP contracts from 1981 through 1986, and we examined the department's records on the ESO's submission of fiscal and program reports due at the end of the contract period.

We discuss the preceding issues that resulted from the allegations in the Audit Results sections of the report. The audit steps listed below relate to the remaining allegations, which we discuss in Appendix A.

To determine whether the WRL's 1986 contract proposal contained misrepresentations of claims and promised services, we verified statements made in the proposal. To verify when the WRL's

weatherization subcontractor was licensed, we contacted the Contractors State License Board in the Department of Consumer Affairs. To determine the experience and training of persons administering the WRL's Weatherization Program, we reviewed training and employment records. To determine if the department equitably evaluated the 1986 contract proposals submitted by the ESO and the WRL, we reviewed the department's evaluation criteria, and we reviewed the scoring by the evaluation committee.

To determine whether the WRL's board of directors conducted meetings with a quorum, we reviewed the WRL bylaws and minutes of board meetings held in federal fiscal year 1983-84 and in 1985.

AUDIT RESULTS

I

THE WELFARE RECIPIENTS LEAGUE, INC., MADE QUESTIONABLE EXPENDITURES AND TRAVEL OVERPAYMENTS FROM LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM FUNDS

The Welfare Recipients League, Inc. (WRL), did not comply with its Low-Income Home Energy Assistance Program (LIHEAP) contracts with the Department of Economic Opportunity (department) for federal fiscal year 1983-84 and calendar year 1986.* These contracts required LIHEAP funds to be used for energy assistance and related costs. The WRL may have violated its contract by using its LIHEAP funds for questionable expenditures, including loans, payroll advances, food purchases, and overpayments for travel reimbursement. The department failed to detect these questionable expenditures and cannot ensure that LIHEAP funds were appropriately disbursed and accounted for during the 1983-84 and 1986 contract years. The State is liable to the federal government for funds that are not appropriately spent for the energy assistance program.

*Before 1985, the department's LIHEAP contracts coincided with the federal fiscal year (October 1 through September 30). Since 1985, the department's LIHEAP contracts coincide with the calendar year. In this report, we refer to contracts by the period they were in effect.

The WRL Made Questionable
Expenditures of LIHEAP Funds

United States Code, Title 42, Section 8621(a) requires that LIHEAP funds be used to assist eligible households to meet the costs of home energy. Further, the department's LIHEAP contracts require contractors to spend LIHEAP funds for energy assistance and related costs. United States Code, Title 42, Section 8624(g) requires the State to repay to the federal government amounts found not to have been spent in accordance with the objectives of the federal program.

In contract years 1983-84 and 1986, the WRL received LIHEAP contracts totaling approximately \$553,000 and \$456,000, respectively. We determined that the WRL made questionable expenditures of approximately \$30,000 of its LIHEAP funds--approximately \$17,460 during contract year 1983-84 and approximately \$12,550 during contract year 1986. We question these expenditures because they do not appear to be related to energy assistance. However, we could not conclude that the expenditures were inappropriate because the WRL did not have all its financial records available for our review. According to the president of the WRL's board of directors, the missing financial records were either destroyed or taken from the WRL's office during a burglary. However, the department reviewed and accepted the independent end-of-contract audit report for 1983-84, which did not reveal any inappropriate expenditures.

In reviewing the WRL's check register and bank statements for 1983-84, we discovered that the WRL had made questionable payments of approximately \$17,450 of its LIHEAP funds. These payments, shown in Table 1, appear to be improper; however, we cannot say with certainty that they are because the WRL does not have all of its financial records.

TABLE 1
THE WELFARE RECIPIENTS LEAGUE, INC.,
QUESTIONABLE EXPENDITURES OF LIHEAP FUNDS
CONTRACT YEAR 1983-84

<u>Questionable Expenditures</u>	<u>Amount</u>
<u>Goods and Services</u>	
Food closet	\$4,290
Rent subsidies	\$1,050
Magazine subscriptions	\$ 380
Babysitting fees	\$ 260
Veterinary fees	\$ 170
Cable television subscription	\$ 120
Florist fees	\$ 80
<u>Loans, Pay Advances, Other Transactions</u>	
Transfer of funds to another bank account	\$3,500
Unpaid loans and salary advances	\$3,290
Retroactive pay	\$2,130
Special assistance	\$1,140
Questionable repayments	\$1,050

The WRL spent \$4,290 to purchase food for the WRL's food closet and for other expenditures related to the food closet. According to the president, the food closet is used to feed needy families. The WRL also used LIHEAP funds for various office expenditures, including \$120 for a subscription to cable television;

\$170 for veterinary fees for the office cat; \$260 for babysitting fees for volunteers; \$380 for magazine subscriptions and books; and \$80 for florist fees.

We also identified loans and salary advances to the WRL's former executive director and five other employees totaling approximately \$6,770; \$3,290 of this total was not repaid. The former executive director received over \$3,300 from five payroll advances and two personal loans. The payroll advances ranged from \$50 to \$1,050, and the personal loans were for \$250 and \$1,500. Our review of the available financial records showed that the former executive director repaid \$1,400 on the loans and payroll advances through occasional payroll deductions in amounts ranging from \$50 to \$350. However, we found no documentation to show that \$1,900 of the total loan was repaid. Five other employees received payroll advances totaling \$3,470 and repaid approximately \$2,080 through occasional payroll deductions. We found no documentation to show that the remaining balance of approximately \$1,390 was repaid.

In addition to questioning the amounts owed on the loans and salary advances, we also question the methods of repayment. In one instance, the former executive director's salary was increased approximately \$400 for two consecutive pay periods to compensate for \$300 and \$350 deductions from her paycheck to repay her loans and payroll advances. In another instance, a WRL employee's salary was increased approximately \$400 for one pay period to compensate for a

\$400 deduction from his paycheck to repay his advances. The salaries of both the former executive director and the employee returned to their original amounts after these deductions.

In total, the former executive director and the five employees received approximately \$6,770 in loans and payroll advances and repaid \$3,480. However, we question \$1,050 of the \$3,480 repaid for loans and payroll advances because of the method that was used. Further, we question the \$3,290 in payroll advances and loans that was not repaid.

In addition to these questionable expenditures of LIHEAP funds, we question a \$3,500 transfer of funds to another bank. Furthermore, the former executive director and two other employees received approximately \$2,130 in retroactive pay for periods that were not specified, even though records show that they received their regular salary for each pay period. Finally, two WRL volunteers who worked in the WRL office received over \$1,140 for unexplained "special assistance," and two other WRL volunteers received rent subsidies totaling \$1,050 from the LIHEAP funds.

We determined that, during contract year 1986, the WRL made questionable expenditures of approximately \$12,550. The former executive director received retroactive pay of approximately \$1,200 even though she received her regular salary for each pay period, and nine volunteers received rent subsidies totaling approximately \$10,980. In addition, the WRL used approximately \$370 to purchase food for its food closet.

According to the president of the board of directors, most of the expenditures made by the former executive director for the contract year 1983-84, except for some routine expenses such as telephone bills, were made with the president's concurrence. However, the president stated that he told the former executive director to reimburse the LIHEAP account from the WRL's general fund for expenditures such as food purchases. Because the WRL does not have complete financial records, we cannot determine if the LIHEAP account was ever reimbursed. The president also stated that the former executive director determined each employee's salary and contacted the president for his approval and that the president based his approval of the salaries on the availability of funds. The president also stated that the WRL's accountant told him that all payroll advances had been repaid. We also found that, in May 1984, the board of directors of the WRL authorized funds to assist volunteers who worked in the WRL's office with their rent payments. Our review of the financial records showed that these payments were made out of LIHEAP funds.

The WRL Made Travel Overpayments

The WRL reimbursed the president of the WRL's board of directors over \$11,700 for travel between Sacramento and San Jose, California during contract year 1983-84. We found no documents to support \$1,700 of this reimbursement, and we found errors totaling \$3,100 on the 89 travel claims we did review.

Because the WRL did not have documentation to support the president's travel reimbursements, the president provided the audit staff with his personal copies of 89 travel expense claims that he said supported the travel reimbursements. In our review of the 89 travel expense claims, we found that 19 claims were duplicates, 5 claims contained erroneous or incomplete information, and 78 claims contained computational errors. For example, on 19 occasions, the president filed at least two travel claims for the same period of travel. He was reimbursed a total of \$2,100 for these duplicate claims. In another instance, the president filed a claim that did not include departure or arrival times. Without this information, we could not compute what his reimbursement should have been. However, he was paid \$116.15 for this claim.

The WRL reimbursed the president \$10,000 for the travel expenses represented by the 89 travel expense claims. However, the president did not have documentation to support \$1,700 of these expenses. In addition, on the 89 travel expense claims, errors in computation totaled approximately \$450, errors in data totaled approximately \$540, and duplicate claims totaled approximately \$2,100. Therefore, the president should have been reimbursed approximately \$6,900 for the 89 claims, not \$10,000.

According to the president, either he or the WRL office staff made out the travel claims, and he signed them. He stated that the travel expense claims provided to our staff were not all the claims

filed but were all that he could find. Further, he admitted that there appeared to be 12 duplicate claims because claims were incorrectly completed by his staff. The president also stated that he made trips to San Jose, on the average, at least two times per week and that he was reimbursed for these trips as funds were available. The president claimed that he made many trips for which he was not paid.

The Department Did Not Detect the WRL's Questionable Expenditures

In its state plans for 1984 and 1986, the department assured the federal government that it would monitor the use of all LIHEAP funds to ensure that they were spent for approved purposes. The department also assured the federal government that it would review reports, conduct audits, and make on-site visits to monitor the contractors' compliance with their contracts.

The department could not provide evidence that program monitoring was conducted in contract year 1983-84 through on-site visits to the WRL. Further, according to the department's manager of program and fiscal audits, between 1981 and 1984, the department did not conduct any audit surveys of the WRL even though the WRL had contracts during that period. However, the department did conduct a preliminary audit of the WRL in 1985 for the 1986 LIHEAP contract and identified a lack of internal controls in the WRL and too few staff performing the accounting functions. The report recommended, among other things, that the WRL subcontract with a public accountant to

assist the WRL in maintaining its fiscal records. The WRL did hire an outside public accountant who certified that the WRL had adequate internal controls to safeguard its assets.

The department considered the actions taken by the WRL sufficient to satisfy the department's recommendations. However, the department did not follow up to ensure that the WRL implemented the measures to correct the weaknesses identified in the preliminary audit.

In 1986, the department conducted three visits to monitor the WRL's program. During these visits, the department reviewed the organization and the activities of the WRL and the actions taken by the WRL in response to previous monitoring findings. However, the department did not focus on the financial activities of the WRL during these visits nor cite any internal control problems or improper expenditures.

Although the department has assured the federal government that all LIHEAP funds will be used appropriately, it failed to detect the questionable expenditures of the WRL in the 1983-84 and 1986 contract years and, therefore, does not know if LIHEAP funds were appropriately disbursed and accounted for by the WRL during these years. The State is required to repay amounts that have not been spent in accordance with the objectives of the federal programs.

Similar Weaknesses Noted in Our
1984 Audit of Other Community Agencies

In a report issued by the Office of the Auditor General in June 1984 entitled "The Office of Economic Opportunity Has Not Controlled Public Funds Properly" (Report P-412), we concluded that the department did not adequately monitor all LIHEAP contractors. Although the WRL was not one of the 12 community agencies we reviewed at that time, the weaknesses identified were similar to those that, as this report shows, existed at the WRL during the audit period covered by Report P-412. For example, Report P-412 identified weaknesses in internal control and instances of improper or questionable expenditures at 8 of the 12 agencies reviewed.

Since Report P-412 was issued, the department has taken steps to implement the recommendations we made in that report. It is the department's policy to conduct the preliminary audit within 90 days of the effective date of the contract to determine that contractors have adequate systems of internal and fiscal controls. The department has also set a goal to conduct audit surveys of all contractors at least once every two years. In addition to performing audit surveys, the department now reviews independent audit reports to identify any questionable or disallowed costs and any weaknesses in the contractors' accounting controls. The department also conducts on-site visits and reviews contractors' reports to monitor and evaluate the contractors' performance.

CONCLUSION

In contract years 1983-84 and 1986, The Welfare Recipients League, Inc., violated its LIHEAP contract by making questionable expenditures totaling over \$30,000. These expenditures are questionable because they do not appear to be related to the energy assistance program. In addition to the \$30,000 in questionable expenditures, in contract year 1983-84 the WRL overpaid the president of its board of directors over \$3,100 for travel reimbursements, and the president could not provide documentation to support \$1,700 of reimbursements for travel expenses. Because the department failed to detect the WRL's questionable expenditures in the 1983-84 and 1986 contract years, the department cannot ensure that LIHEAP funds were appropriately disbursed and accounted for during those years. Furthermore, the State is liable to the federal government for energy assistance funds that are inappropriately spent. Although the department has implemented previous recommendations made by the Office of the Auditor General to monitor the LIHEAP contractors, the department needs to improve its financial monitoring.

RECOMMENDATIONS

The Department of Economic Opportunity should discontinue contracting with nonprofit organizations that consistently fail to spend energy assistance funds according to the requirements of their contracts until the organizations can demonstrate that they have fiscal controls for meeting these requirements.

The department should review the WRL's expenditures and collect all improperly spent funds.

To ensure that LIHEAP funds are appropriately spent and accounted for by contractors, the department should take the following actions:

- Conduct on-site reviews of contractors with known deficiencies to ensure that the contractors have taken action to correct the deficiencies; and
- Periodically conduct audit surveys of all LIHEAP contractors.

Finally, the department should fully implement previous recommendations made by the Office of the Auditor General.

II

THE ECONOMIC AND SOCIAL OPPORTUNITIES, INC., HAS NOT ALWAYS MET ITS CONTRACTUAL REPORTING REQUIREMENTS

Between contract years 1980-81 and 1986, the Economic and Social Opportunities, Inc. (ESO), did not always comply with its contractual reporting requirements for the LIHEAP. The ESO often submitted three types of reports late: the end-of-contract fiscal and program report, the expenditure report, and the activity report. The department cannot promptly collect unspent funds and cannot disburse funds to ESO promptly if reports are not submitted on time.

The LIHEAP contracts require contractors to submit three types of reports. The fiscal and program report prepared at the end of the contract period reconciles contractors' total expenditures with the total funds received. The monthly expenditure report lists the expenditures incurred by contractors in the preceding month and the estimated spending needs of the contractors for the next two months. The department uses this report to calculate reimbursements to contractors. The monthly activity report summarizes contractors' activities each month.

The 1982-83 and 1983-84 LIHEAP contracts required that contractors submit a fiscal and program report at the end of the contract period and that they return all unspent funds to the

department within 30 days of the end of the contract. Since contract year 1983-84, contractors have been required to report and return the funds within 90 days. The department did not specify any deadlines for the 1980-81 and 1981-82 LIHEAP contracts.

In addition, contractors were required to submit expenditure and activity reports on the fifth working day of each month for LIHEAP contracts from 1981-82 through 1983-84. For the 1985 and 1986 LIHEAP contracts, contractors were required to submit the reports on or before the fifteenth day of each month for expenditures and activities conducted in the preceding month.

From 1981 through 1986, the ESO received six LIHEAP contracts totaling over \$2.4 million. Our review of the department's contract files showed that for the 1982-83 and 1986 LIHEAP contracts, the ESO submitted the required end-of-contract fiscal and program report on time. For the 1985 contract, the ESO submitted the end-of-contract fiscal and program report 19 days early. However, for the 1983-84 contract, the ESO submitted the end-of-contract fiscal and program report approximately two months late. Because the ESO submitted this report late, the department could not promptly determine if there were unspent federal funds.

Our review of the expenditure and activity reports for the 1982-83 LIHEAP contract revealed that the ESO submitted all 12 expenditure reports up to 49 days late. For the 1983-84 LIHEAP

contract, the ESO submitted 11 of its 15 expenditure reports up to 76 days late. Further, for the 1986 LIHEAP contract, the ESO submitted 8 of 12 activity reports up to 15 days late. The late submission of these reports caused a delay in the department's reimbursement to the ESO of LIHEAP funds needed by the ESO to provide energy assistance services.

Because required reports were submitted late, the ESO did not comply with the provisions of its 1982-83 LIHEAP contract. Further, the ESO did not comply with the provisions of the 1983-84 LIHEAP contract in submitting its end-of-contract fiscal and program report and its monthly expenditure reports. Finally, the ESO did not comply with the provision of the 1986 LIHEAP contract in submitting the monthly activity reports.

According to the ESO's executive director, during contract year 1982-83, the ESO experienced a high turnover of its accounting staff. He stated that it is not uncommon to submit the expenditure and activity reports from a few days to approximately two months late. He explained that the ESO used funds from other sources to assist low-income households with home energy costs when funds from the department were delayed. We conclude that the ESO's late reporting is a minor administrative problem and does not involve missing funds.

The department has recovered approximately \$9,600 in funds that the ESO did not spend in contract year 1982-83. In August 1984,

the ESO submitted its 1982-83 end-of-contract fiscal and program report. In September 1984, through a review of this audit report, the department identified approximately \$9,600 in LIHEAP funds that the ESO had not spent and notified the ESO of this surplus. In January 1985, the department reminded the ESO of the unspent funds that the ESO owed the department. In February 1985, the ESO agreed to refund the unspent funds and, in March 1986, the ESO made the refund.

The department has taken measures to encourage the ESO to comply with its contractual reporting requirements. Our review of two instances when the ESO submitted its reports 13 and 17 days late showed that the department approved reimbursements to the ESO only after it received and reviewed the reports.

In 1983 and 1984, the Auditor General's Office reported similar problems in the operations of the ESO. In a letter to the Joint Legislative Audit Committee in April 1983 (Report F-266), we reported, among other things, that the ESO had failed to comply with the department's reporting requirements. In Report P-412, issued in June 1984 and entitled "The Office of Economic Opportunity Has Not Controlled Public Funds Properly," we reported that the LIHEAP contractors were slow to submit their end-of-contract fiscal and program reports and that the department did not review all the end-of-contract fiscal and program reports that it received from the contractors. Because of the delays in the department's receipt and review of end-of-contract fiscal and program reports, we concluded that

the department could not promptly collect unspent federal funds or recover federal funds that contractors had spent improperly. As we point out in Appendix B, the department has taken steps to implement our previous recommendations to review reports and collect unspent funds.

CONCLUSION

In contract years 1982-83, 1983-84, and 1986, the Economic and Social Opportunities, Inc., violated its contractual reporting requirements by submitting its required reports late to the department. However, we conclude that this is a minor administrative problem that does not involve missing funds.

In addition, the ESO did not pay the department approximately \$9,600 from contract year 1982-83 until March 1986. Although the department has taken steps to implement our previous recommendations to review reports and collect unspent funds, it needs to increase its efforts.

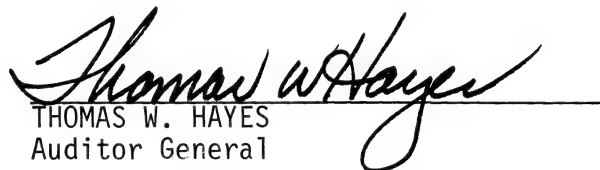
RECOMMENDATIONS

The Economic and Social Opportunities, Inc., should comply with all the reporting requirements in its LIHEAP contract.

The department should enforce all contractual reporting requirements.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: August 10, 1987

Staff: William S. Aldrich, Audit Manager
Arthur C. Longmire
Keith K. H. Tsukimura
Stephen W. L. Cho

APPENDIX A

ALLEGATIONS MADE BY THE ECONOMIC AND SOCIAL OPPORTUNITIES, INC., AND THE WELFARE RECIPIENTS LEAGUE, INC.

As we noted earlier in the Scope and Methodology section of this report, the purpose of this audit was to determine the validity of recent allegations made by two contractors for the Low-Income Home Energy Assistance Program (LIHEAP) in Santa Clara County. The two contractors--the Economic and Social Opportunities, Inc. (ESO), and The Welfare Recipients League, Inc. (WRL)--accused each other of several deficiencies in administering their LIHEAP contracts. The allegations that we found to have substance are reported as findings in the Audit Results section of this report. Below we list all of the allegations that were made by both contractors and, following each allegation, our analysis.

ALLEGATIONS MADE BY THE ESO

Allegation: "The WRL's 1986 proposal substantially plagiarized the earlier submitted ESO proposal."

Conclusion: Although the language in the proposals of the two agencies was similar, our review did not disclose any apparent plagiarism. Moreover, an agency's proposal is not proprietary and normally becomes a matter of public record with the award of the contract. Thus, there is no basis for concluding that the use of similar language in proposals is improper.

Allegation: "The Department of Economic Opportunity rated WRL's proposal higher than ESO's on areas in which ESO promised more services for less cost."

Conclusion: The Department of Economic Opportunity (department) did rate WRL's proposal higher; however, the department's evaluation criteria included factors other than the cost of service. In addition to the cost of service, the department evaluated program goals by the groups targeted and the number of dwellings to be provided energy assistance. The WRL's proposal was given two points more than the ESO's because the WRL's proposal specifically addressed the service to groups such as the handicapped, the elderly, and welfare recipients.

Allegation: "WRL's proposal contained fraudulent representations of claims, facts, and promised services."

Conclusion: In its 1986 contract proposal, the WRL misrepresented data concerning the experience and formal training of its energy program administrator and the experience of its weatherization subcontractor. However, these data would not have affected the department's evaluation of the WRL's proposal.

The WRL claimed that the administrator for both the Energy Crisis Intervention Program and Weatherization Program had 18 years of experience working with human service organizations and had attended the Pacific Gas and Electric Company's weatherization training program in Stockton, California. Our review of the administrator's resume showed that she had 13 years of experience. However, the department's evaluation criteria required only one year of program experience to receive the maximum number of points. Further, the administrator did not complete the Pacific Gas and Electric Company's weatherization training in Stockton until October 1986, ten months after the award of the contract.

In addition, the WRL claimed that its weatherization subcontractor had eight years of experience. We contacted the Contractors State License Board in the Department of Consumer Affairs and determined that the contractor was licensed in December 1983. Thus, in January 1986, when the WRL's LIHEAP contract became effective, the contractor had been in business for only two years. However, these misrepresentations would not have affected the evaluation of the WRL proposal because the department had previously approved the WRL's weatherization subcontractor.

Allegation: "WRL made improper payments including:

- \$11,612.55 in checks to [the president of the WRL's board of directors] signed by [the president] for reimbursement for undocumented travel between San Jose and Sacramento during 1984;
- Advances to WRL's director...and her son;
- Payment for cable television in WRL's office; and
- Payments to an animal hospital for WRL's office cat."

Conclusion: This allegation is discussed in the report on pages 7 to 14.

Allegation: "WRL's Board failed to meet regularly or with the necessary quorum."

Conclusion: According to the WRL's bylaws, five directors constitute a quorum of the board of directors. In addition, the bylaws require the board of directors to meet a minimum of four times in each 12-month period. Our review of the WRL's board meeting minutes showed that four board meetings were held during 1984 and that there were only four board members present at each meeting. In 1985, the WRL conducted three meetings; one meeting did not have a quorum. However, in January 1986, the WRL's board voted to amend the bylaws to reduce the number of board members required for a quorum from five to four. Although the WRL failed to meet with the necessary quorum in its 1984 board meetings, we cannot determine the effect of a lack of a quorum on the administration of the LIHEAP contract by the WRL. Further, the contract does not specify a penalty for meeting without the necessary quorum.

Allegation: "WRL solicited and received money from people seeking ECIP assistance."

Allegation: "WRL's often [used] abusive treatment [toward] people seeking assistance."

Conclusion: We attempted to contact 34 individuals identified by either the ESO or the WRL as persons having complaints about the energy assistance service they received in Santa Clara County. Twenty-one of the 34 individuals were either not at home or had moved. Of the 13 individuals we interviewed, one person stated that she was asked to pay a fee of \$1 or \$2 when she applied for energy assistance at the WRL and that she was rudely treated; 2 persons stated that they were rudely treated by the WRL staff but were not asked for money; one person stated that the ESO did not complete the weatherization of her house as promised; and the remaining 9 persons had no complaint about the service provided by either the ESO or the WRL. Thus, there is insufficient evidence to conclude that the WRL generally solicited donations or treated applicants rudely.

QUESTIONS RAISED BY THE WRL CONCERNING THE ESO'S ADMINISTRATION OF ITS LIHEAP GRANT

Allegation: "Whether ESO has owed the DEO [Department of Economic Opportunity] money, whether ESO now owes the DEO, and whether ESO has made timely repayments of such debts."

Conclusion: The ESO owed the department \$9,600 in unspent funds from its 1982-83 LIHEAP contract. However, the ESO fully repaid the department in 1986. As of July 31, 1987, the ESO did not have any debts due the department for the energy assistance program. This allegation is discussed in the report on pages 21 and 22.

Allegation: "Whether ESO has submitted close-out reports in a timely manner as specified in their energy assistance contracts with DEO since 1980 and whether ESO has met the fiscal and program requirements of the department for their energy assistance programs during the past five years."

Conclusion: These allegations are discussed in the report on pages 19 to 23.

**THE DEPARTMENT OF ECONOMIC OPPORTUNITY'S
IMPLEMENTATION OF PREVIOUS AUDITOR GENERAL
RECOMMENDATIONS FOR IMPROVING THE ADMINISTRATION
OF THE LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM**

Since 1983, the Auditor General has issued four reports on the Department of Economic Opportunity (department) that pertain to the department's administration of the Low-Income Home Energy Assistance Program (LIHEAP). The findings in these reports are summarized below. We also list the recommendations from these reports and summarize the department's efforts to implement them.

"The Office of Economic Opportunity Could
Improve Its Administration of the
Low-Income Energy Assistance Block Grant,"
(Report P-232, August 1983)

In August 1983, we recommended that the department extend the eligibility period for the Home Energy Assistance Program to include all persons who receive Aid to Families with Dependent Children and Supplemental Security Income/State Supplemental Program assistance throughout the year. We also recommended that the department compile a mailing list of all potentially eligible recipients and mail an application to each household and that the department verify the income of the entire household when determining an applicant's eligibility for assistance. We also recommended that the department ensure that contractors are promptly reimbursed for expenses they incur in providing services under the LIHEAP, establish assistance limits for the ECIP that consider the variations in utility rates and climate, and establish procedures for providing fair hearings to applicants who are denied service. Finally, we recommended that the department require contractors to submit budgets outlining administrative and program expenses to ensure that contractors receive sufficient funding for administrative expenses.

Recommendation

The department should extend the HEAP program's eligibility period to include all persons who receive Aid to Families with Dependent Children and Supplemental Security Income/State Supplemental Program assistance throughout the year.

Status

The department accepts applications throughout the program year until funds are exhausted.

Recommendation

The department should compile a mailing list that includes all potentially eligible recipients and mail an application for the program directly to each household.

Status

The department contracts with the Department of Health Services to compile a list of potentially eligible applicants and mails an application directly to each identified household. The department uses records from the Medi-Cal Eligibility Data System to identify eligible applicants.

Recommendation

The department should require all applicants to supply the social security numbers of all members of the household. The department should use available data to verify the income of the entire household when determining an applicant's eligibility for assistance.

Status

The department uses only household income for applicants who are not categorically eligible. In 1986-87, these applicants represented about 1.6 percent of all applicants determined to be eligible. Thus, this recommendation no longer applies to the department's eligibility verification process.

Recommendation

The department should establish policies, procedures, and priorities that reduce the time necessary to process the invoices and reimburse the community agencies.

Status

The department has implemented procedures for processing invoices submitted by contractors. We reviewed five expenditure reports submitted in April 1987 and found that the department processed them within 8 to 12 working days.

Recommendation

The department should establish assistance limits for the ECIP that consider the variations in utility rates and climate.

Status

To determine contract amounts, the department uses a formula that considers utility rates, climate, and the number of participating households in each service area. However, the ECIP does not consider these factors in setting its maximum assistance level.

Recommendation

The department should establish procedures for fair hearings to applicants who are denied services. The department should ensure that the community agencies inform applicants about hearing procedures through the duration of the contract.

Status

The department has implemented a process for fair hearings for applicants to all three LIHEAP programs. The majority of fair hearings arise from HEAP cases. The department ensures that community agencies inform applicants about the fair hearing process.

Recommendation

The department should require community agencies to submit budgets outlining estimated administrative and program expenses and should determine administrative allocations to community agencies based on agencies' needs.

Status

The department requires contractors to submit annual budgets. However, the department does not base administrative allocations on the contractors' needs.

"The Office of Economic Opportunity Has
Not Controlled Public Funds Properly,"
(Report P-412, June 1984)

In June 1984, we reported, among other things, that the department had poor control over federal funds from the LIHEAP and from the community agencies with which it contracted. The report concluded that some contractors had misused or made questionable expenditures of federal funds and that the State is liable to the federal government for federal funds under the State's jurisdiction that are spent improperly.

Recommendation

The department needs to submit its annual audit plan to the State Controller, the Auditor General, and the Director of Finance so that the plan can be approved and adopted by October 1 of each year.

Status

The department received approval of its 1985 annual audit plan by the October 1 deadline. The department did not receive required approval of its 1986 audit plan until May 1987.

Recommendation

The department needs to develop procedures for its staff to follow when conducting preliminary audits. These procedures should ensure that the auditors conduct proper testing and that they keep adequate documentation to support their work.

Status

The department has developed procedures, stated in its audit manual, for conducting preliminary audits. The manual was reviewed by the Office of the Auditor General, the State Controller's Office, and the Department of Finance.

Recommendation

The department needs to promptly conduct preliminary audits of each community agency with which the department has not previously contracted to determine that the agency has a reliable system of internal and fiscal management controls. The department should conduct the preliminary audit within 90 days of the beginning of each contract.

Status

Since 1985, the department has conducted a preliminary audit of four of the six new LIHEAP contractors within 90 days of the beginning of the contract. The other two contractors did not require preliminary audits since they held other contracts with the department.

Recommendation

The department needs to review reports from independent auditors and follow up promptly on the problems identified in those reports. The department should give priority to reports on community agencies for which independent auditors and the department have previously identified problems and to those reports on community agencies that have received large contract awards.

Status

The department reviews reports from independent auditors and follows up on problems identified in those reports. The department reviews these reports in the order in which they arrive; it has not established a priority system.

Recommendation

The department needs to periodically conduct audits of community agencies to ensure that agencies have adequate internal fiscal controls and that they use federal funds properly.

Status

The department conducts audits of contractors that it identifies as having problems. The department does not conduct periodic audits of all contractors.

Recommendation

The department needs to add provisions to its contracts with community agencies that will allow the State to conduct comprehensive audits of community agencies.

Status

In 1987, the department has added provisions to its LIHEAP contracts that require single audits by all contractors.

Recommendation

The department needs to promptly recover any federal funds that community agencies have spent improperly.

Status

The department has procedures for collecting funds that have been disallowed by audits. In addition, the department has been collecting funds from contractors. In fiscal year 1986-87, the department collected \$628,000 in excess funds from 70 contractors.

Recommendation

The department needs to train audit staff in the proper procedures for carrying out preliminary audits, for reviewing independent audit reports, and for conducting periodic audits of community agencies.

Status

The department conducts ongoing training through established in-house programs, state programs, and specialized programs.

Recommendation

The department should establish a schedule for ensuring that it obtains and disburses federal funds as soon as these funds become available to prevent delays in payments to households eligible for the HEAP. Furthermore, the department's management should supervise the payment process to ensure that low-income households receive all of the benefits to which they are entitled.

Status

The department notifies all managers when federal grant monies become available and has a review system that monitors benefits paid to eligible households. Since the 1984-85 federal fiscal year, the department has requested LIHEAP funds from the federal government promptly.

Recommendation

The department should adhere to its policy of assigning each zip code area to a single community agency to ensure that eligible households do not receive more than the maximum amount of assistance allowed by the Energy Crisis Intervention Program (ECIP). If the department does make exceptions to this policy, the department should establish controls to prevent eligible households from receiving financial assistance from more than one community agency.

Status

The department currently assigns each zip code area to a single contractor. LIHEAP contracts specify the zip code areas for which a contractor is responsible.

"The State of California Must Improve
The Control of Its Financial Operation,"
(Report F-469, April 1985)

As part of the examination of the General Purpose Financial Statements of the State of California for the fiscal year ended June 30, 1984, the Office of the Auditor General reviewed the department's system of internal control. In this report, we recommended, among other things, that the department include all federal requirements in future LIHEAP contracts. We also recommended that the amount of Home Energy Assistance Program assistance be based on a combination of gas and electrical rates for the applicant's

county. In addition, we recommended that the department submit the annual LIHEAP report to the federal government by October 31 of each year as required by federal regulations. Finally, we recommended that the department review the contractors' audit reports to ensure that all federal requirements are met and impose sanctions against contractors that do not submit audit reports by the dates required in the contracts.

Recommendation

For applicants who list both gas and electricity as their primary energy sources, the department should base the amount of Home Energy Assistance Program (HEAP) assistance on a combination of gas and electrical rates for the applicant's county.

Status

The department now uses a combination of gas and electrical rates for determining HEAP assistance levels for all applicants.

Recommendation

The department should act upon applications for HEAP assistance with reasonable promptness and provide prompt assistance to those applicants whom the department determines to be eligible.

Status

We reviewed 15 applications for HEAP assistance submitted for the 1986-87 program year. We found that the department is making HEAP assistance payments more promptly.

Recommendation

The department should prepare and retain records that support the propriety of all financial accounting transactions.

Status

The department's computer system no longer makes automatic adjustments to an applicant's reported income. In addition, any adjustments to an applicant's computer record are noted by the computer system, and the department keeps records of these transactions.

Recommendation

The department should prepare and submit the annual report for the Low-Income Home Energy Assistance Program Block Grant to the U.S. Department of Health and Human Services (DHHS) by October 31 of each year.

Status

In 1985, the department submitted its LIHEAP Block Grant report to the DHHS on November 7, 1985. In 1986, the department submitted the report on October 30, 1986.

Recommendation

The department should include all block grant requirements in future contracts.

Status

Since 1985, the department has included in its LIHEAP contracts the four block grant requirements that were found to be deficient in the 1983-84 contracts.

Recommendation

The department should impose sanctions against community agencies that do not submit audit reports by the dates required in the contracts.

Status

Since 1985, the department has not imposed sanctions against contractors that have submitted their audit reports late. For contract year 1986, contractors submitted audit reports for only 28 of the department's 74 LIHEAP contracts. The department has not received 46 audit reports for 1986 contracts.

"The State of California Should Further
Improve Controls Over Financial Operations,"
(Report F-644, March 1987)

As part of the examination of the General Purpose Financial Statements of the State of California for the fiscal year ended June 30, 1986, the Office of the Auditor General reviewed the department's system of internal and fiscal control. In this report, we recommended, among other things, that the department complete the development of and implement procedures for resolving disagreements on audit findings to ensure their prompt resolution and that contingent receivables resulting from audit exceptions be recorded in the department's accounting records. We also recommended that the department develop and implement a schedule to process Home Energy Assistance Program appeals within the 90 days stipulated in the state plan.

Recommendation

The Department of Economic Opportunity should work with the State Controller's Office to allow the department to request federal funds for the block grants at the time that the State Controller's Office issues the warrants. The department should also establish written guidelines for requesting federal funds and keep records of its cash need forecast for all federal programs.

Status

The department has drafted written guidelines for requesting federal funds and maintains records of its cash need forecasts. In addition, the department and the State Controller's Office have an agreement for drawing federal funds after the department's checks are ready to be processed.

Recommendation

The department should complete and implement the procedures that it is developing for resolving audit findings and recommendations. The procedures should include a requirement that contingent receivables resulting from audit exceptions be recorded in the accounting records.

Status

The department has implemented its procedures for resolving audit findings and recommendations. The procedures contain a provision to account for contingent receivables.

Recommendation

The department should also develop and implement a schedule for each appeal so that an appellant receives a decision within the 90 days stipulated in the state plan. The schedule should provide for prompt notification of decisions after the hearing.

Status

The department is implementing a scheduling system for fair hearings. The department currently notifies appellants promptly after a decision is made.

DEPARTMENT OF ECONOMIC OPPORTUNITY

1600 NINTH STREET

SACRAMENTO, CA 95814

(916) 323-8694



August 5, 1987

Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

We appreciate the opportunity to comment on the Auditor General's Report P-668, issued August 1987. We are most pleased with the fact that your staff recognized the achievement and implementation of virtually every substantive recommendation made in prior reports of your office about the Department of Economic Opportunity (DEO). Appendix B of P-668 fully details the considerable progress which has been made by the DEO toward the development and maintenance of a high quality program operation, and we commend the Office of the Auditor General's documented recognition of this fact.

We would like to address the specific findings and recommendations contained within the report to present DEO's position relative to their implementation. The recommendations presented in P-668 and the department's response are detailed in the following:

1. RECOMMENDATION

The Department of Economic Opportunity should discontinue contracting with agencies that consistently fail to spend energy assistance funds according to the requirements of the contracts until the agencies can demonstrate that they have fiscal controls for meeting these requirements.

DEO RESPONSE

It must be recognized that the Department of Economic Opportunity must comply with both State and Federal mandates as to those agencies which are eligible to receive funds. This limits significantly the universe of available contractors, thereby requiring that the department exert considerable effort to monitor and assist agencies to support their responsible performance. While the department concurs with this recommendation in those extreme cases where this assistance is not adequate to correct major deficiencies, we feel it important that this is not viewed as the simple expedient that it may at first appear. Rather, it is incumbent on the department to take all reasonable steps to assure that

contractors have adequate program and fiscal controls to meet their responsibilities. To achieve this, the following procedures have been in place for over three years:

- o During each fiscal contracting period, all contractors are required to submit a certification, signed by an independent public accountant, that the accounting system and controls are in place.
- o A Preliminary Audit Survey is conducted of each new contractor within 90-days of contract execution. The contractor is required to correct deficiencies as a condition of continued funding.
- o Program monitors periodically conduct site visits during the contract term to evaluate the effectiveness of program operations and the adherence to contract provisions.
- o Audit surveys are conducted routinely to determine if accounting records and fiscal controls are being properly maintained.
- o Independent audit reports are required at the completion of each contract. All questioned and disallowed costs which are disclosed in the audit report are resolved or collected, and contractors must respond to all audit exceptions as a condition of continued funding. Single, agencywide audits have been required since January 1, 1987.

2. RECOMMENDATION

The department should conduct on-site reviews of contractors with known deficiencies to ensure that the contractors have taken action to correct the deficiencies.

DEO RESPONSE

In addition to the audit surveys discussed in the response to the above recommendation, each contractor is visited at least twice each year by program monitoring staff. During the last fiscal year, procedures have been instituted whereby monitoring staff routinely meet with audit staff prior to conducting field sites and audit personnel meet with program staff prior to conducting audit surveys or extensive audits. Where known administrative and fiscal deficiencies exist, the on-site monitor is instructed to review the measures to be taken to correct those problems. Where these problems are determined to persist, audit staff are dispatched for more intensive review of conditions. Therefore, it is the department's position that its current policy of on-site reviews is consistent with the Auditor General's recommendation.

3. RECOMMENDATION

The department should review the WRL's costs and collect all improperly spent funds.

DEO RESPONSE

We concur with this recommendation. It should be noted that independent audit reports have been submitted for the two contracts during the 1983-84 fiscal year. The opinion in these audit reports were unqualified and disclosed no questioned or disallowed costs. An audit of the 1986 contract is currently being conducted by an independent public accountant, and we have been assured that the audit report will be submitted by August 15, 1987.

4. RECOMMENDATION

(The department should) periodically conduct audit surveys of all LIHEAP contractors.

DEO RESPONSE

This has been, and remains, a goal of DEO. As stated in the text of P-668 (Audit Results, Section I), your staff recognized that the present goal is to perform an audit survey of all contractors at least once every two years. As part of the procedures for attaining this goal, the department has developed a system of applying certain indices to disclose those contractors with the highest probability of encountering fiscal problems. Audit surveys are then conducted on a priority basis. During the past two years, 84 of these surveys have been conducted. We assume, therefore, that this recommendation is made in support of our existing policy.

5. RECOMMENDATION

The department should fully implement previous recommendations made by the Auditor General's Office.

DEO RESPONSE

Appendix B of this report is a summary of the recommendations made by the Auditor General since 1983. A review of the Appendix will disclose that DEO has vigorously implemented the recommendations of the Auditor General where, in the opinion of DEO management, the recommendations are the most appropriate solutions.

The views of the Auditor General have been most appreciated and DEO will continue the record demonstrated in your current findings as detailed in Appendix B.

Thomas W. Hayes
Page 4
August 5, 1987

6. RECOMMENDATION

The department should enforce all contractual reporting requirements.

DEO RESPONSE

DEO concurs with the recommendation and has worked vigorously with its contractors to encourage timely reporting. It should be noted that under current procedures the contractor is automatically penalized when monthly reports are submitted late, because reimbursements are not made by DEO until after the report is received and reviewed.

Again, we wish to thank you for this opportunity to respond, and are most appreciative of your Office's recognition of achievements which have been realized by the Department of Economic Opportunity in recent years.

If you have any questions or comments, please contact me or Ron Joseph, Chief Deputy Director, at 323-8694.

Sincerely,



~~ROBERT P. MARTINEZ~~
Director

77268



THE

INC.

1505 EAST SANTA CLARA STREET

SAN JOSE, CALIFORNIA 95116

(408) 259-9600

TO: OFFICE OF THE AUDITOR GENERAL

August 3, 1987

FROM: MARIE ROBERTSON, EXECUTIVE DIRECTOR, WELFARE RECIPIENTS LEAGUE, INC. *MR*

SUBJECT: WRL RESPONSE TO THE REPORT ENTITLED: **"CONTRACTORS FOR THE LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM IN SANTA CLARA COUNTY HAVE NOT COMPLIED WITH THEIR STATE CONTRACTS."** *

This investigation stems from allegations made against WRL by ESO, Inc. in 1985 and 1987. These allegations were: (1) that WRL did not maintain a general ledger; and (2) that its President received transportation reimbursements without submitting any travel claims. Both of these allegations have been reviewed by DEO during the 1986 audit review and they were proven to be false.

The Auditor General's office did not find any of our expenditures to be inappropriate, however they had some questions. The questions about these expenditures stem from the fact that office records are missing, although all of those records had been duly reviewed by DEO staff during their regular monitoring visits and by a duly certified public accountant of the State of California.

"We do not conclude that the expenditures are inappropriate..." OFFICE OF THE AUDITOR GENERAL"

The Welfare Recipients League has been providing services to Santa Clara County's low income community since 1971. The organization has received funding from various sources. For most of those years, the organization has relied on volunteers.

Being a small organization, the League does not follow the same comprehensive paperwork procedures as do multimillion dollar corporations. However, all of the required paper work and reports are submitted as promptly as the multimillion dollar corporations who have contracts with the Department of Economic Opportunity.

The report states that "according to the President of the WRL's Board of Directors, the missing financial records were either destroyed or taken from the WRL office during a burglary." **The truth is that the President stated the records, which included the 1983-1984 WRL General Fund ledger and other documents, were destroyed or removed. A police report is on file to verify this fact."**

Attachment #1 provides a detailed response to each of the "questionable" but "not inappropriate" expense.

It should also be pointed out that of the \$553,000 contract for 1983-1984 and \$456,000 for 1986, only 10% of those funds were used for administration of

MORE ON PAGE 2

*The Auditor General's comments on this response appear on page 49.

CONTINUED FROM PAGE 1

the program. The remaining amount of funds were exclusively for services to low income families to meet their energy needs by primarily sending money to the Pacific Gas & Electric and the Weatherization contractor.

Travel Reimbursements

As we have stated to the Office of the Auditor General, most of the records in the office were either destroyed or taken away illegally. This fact was verified by a police report.

The report states on page 13, that the President told the Auditor General that the 89 travel claims "supported the travel reimbursements." Our discussion with the President reveals that what he actually said was that the samples of travel claim forms that he had in his possession rebutted the false claim of ESO that the President was paid for travel without submitting any travel

claims.

The claims that were given to the Auditor General did not represent all the claims. Moreover, some were travel claims that were prepared by staff and signed by the President, which accounts for the discrepancy.

In the final analysis, the President made at least 2 or 3 trips a week to San Jose from Sacramento and the travel claims that were paid would never reimburse him for his actual travel expenses during the fiscal year of 1983-1984.

There may have been some technical problems with the claims, however, these claims have been reviewed by DEO during their January 1986 audit review in which they found no evidence to support the false accusations of ESO.

**NOTE: THE RESPONSE CONTAINED HEREIN IS
MERELY A RESPONSE TO THE PRELIMINARY REPORT.**

**WE WERE INFORMED BY THE AUDITOR GENERAL THAT WE WILL NOT BE ALLOWED
TO SUBMIT A RESPONSE TO THE FINAL REPORT OF THE AUDITOR GENERAL.**

QUESTIONABLE INFORMATION	WRL'S RESPONSE
Magazine Subscriptions \$380	<p>Magazines are available in most offices where customers have to wait. WRL operated an intake process through walk-in procedures. Thus clients may have to wait for 20-30 minutes before they would be seen. Magazines were available for clients to read while they were waiting. Moreover, it is our position that magazines were paid from general fund (initially it was paid through LIEAP funds, but then reimbursed by WRL's general fund).</p>
Florist fees \$80	<p>Questions regarding this item are puzzling. Flowers could have been purchased for the office. We see nothing wrong with having flowers in an office which serves poor people. Moreover, it is our position that magazines were paid from general fund (initially it was paid through LIEAP funds, but then reimbursed by WRL's general fund).</p>
Food Closet \$4,290	<p>As WRL told the Auditor General, sometimes WRL would use the LIEAP funds to purchase food for the food bank, but then funds from the general account were returned to the LIEAP account. This is verified by the fact that the 1983-1984 books were audited and this issue was clarified during the regular audit. In addition, DEO monitoring staff was informed about this arrangement when they visited our offices regularly.</p>
Rent Subsidies to volunteers \$1,050	<p>Rent subsidies were given to volunteers of WRL who assisted in the operation of the LIEAP program. Because LIEAP administrative funds were very limited, and the need for LIEAP services were overwhelming, WRL had to use volunteers who received some benefits, such as babysitting, rent subsidies in return for their services to the LIEAP program.</p>
Babysitting Fees \$260	<p>Babysitting fees were paid for WRL volunteers who also volunteered for the LIEAP program. Because LIEAP administrative funds were very limited, and the need for LIEAP services were overwhelming WRL had to use volunteers who received some benefits, such as babysitting, rent subsidies in return for their services to the LIEAP program.</p>
Veterinary fees \$170	<p>Veterinary fees were costs that were paid from general fund, by having the general fund reimburse the LIEAP fund. This should be (ATTACHMENT #1, page 1)</p>

QUESTION- ABLE INFORMATION	WRL'S RESPONSE
Veterinary fees \$170 Continued from Page 1	verified by the fact that the 1983-1984 books were audited and this issue was clarified during the regular audit. In addition, DEO monitoring staff was informed about this arrangement when they visited our offices regularly.
Cable TV \$120	Cable TV subscription fees were paid back to the LIEAP program from the general fund account. This should be verified by the fact that the 1983-1984 books were audited and this issue was clarified. In addition, DEO monitoring staff was informed about this arrangement when they visited our offices regularly.
Transfer of funds to another bank account \$3,500	All transfers of funds to another bank account were done correctly. This should be verified by the fact that books were audited and this issue was clarified during the regular audit. In addition, DEO monitoring staff was informed about this arrangement when they visited our offices regularly.
Unpaid Loans \$3,290	All loans and advances were paid back, according to the WRL accountant. Moreover, this should be verified by the fact that the 1983-1984 books were audited and this issue was clarified during the regular audit. Finally, DEO monitoring staff was informed about this when they visited our offices regularly.
Retroactive Pay \$2,130	Retroactive pay was issued to staff when funds became available. Being a small office with volunteers, who worked for no pay for months and months, they were entitled to a decent pay when the funds became available. In fact, persons working and volunteering at WRL were always told that they may have to sacrifice now until funds became available, then they would be compensated for their labor. We recognize that this is not a system in which most people would put up with, but WRL has always had committed volunteers/employees.
Special Assistance \$1,400	Special assistance was provided to volunteers in return for their work at WRL in the administration of the LIEAP program. This should be verified by the fact that the 1983-1984 books were audited and this issue was clarified during the regular audit. In addition, DEO monitoring staff was informed about this arrangement when they visited our offices regularly.
Questionable Repayments \$1,100	Clearly the record shows that all payments were repaid. We cannot stop the Auditor General's Office from posing questions based on suspicions.



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TOMMY J. FULCHER, JR.
EXECUTIVE DIRECTOR

August 3, 1987

Thomas W. Hayes
Auditor General
State of California
660 J Street, Suite 300
Sacramento, CA 95814

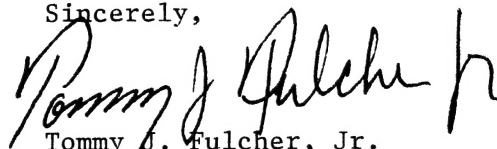
Dear Mr. Hayes:

We are in receipt of the draft copy of the report entitled "Contractors for the Low-Income Home Energy Assistance Program in Santa Clara County Have Not Fully Complied With Their State Contracts". Economic and Social Opportunities, Inc. (ES0) takes no exception to any of the findings included in the report. We are aware that of the more than fifty monthly and annual financial reports required by the State Department of Economic Opportunity (DEO) over the past four years, we have from time to time submitted reports late. However we maintain that during this period DEO's requirement that reports be submitted by the 5th working day of the month following the period covered was unreasonable. This is especially true when one considers that ES0 maintains its financial records on an accrual rather than cash basis, and in the past it has taken more than five days to make the required accruals in order to close out accounts for the periods in question.

Fortunately DEO has recently extended the time line for report submission and we foresee no problem in meeting the revised time line. You are assured that the reports being a few days late had no effect whatsoever on ES0's ability to meet obligations to its clients, in that we have always been able to cash flow this program through agency reserves pending DEO disbursements to ES0.

On behalf of the staff of ES0, I would like to thank your office for the courtesy and cooperation displayed by your auditors, Mr. Longmire and Mr. Chew. The professionalism with which they approached this assignment and their willingness to inform us as to their research methodology and analytical process made it much easier for us to produce the records they asked for and to insure that staff was available to them when required. I for one am pleased to see the high level of competence displayed by representatives of State Government.

Sincerely,


Tommy J. Fulcher, Jr.
Executive Director

**AUDITOR GENERAL'S COMMENTS ON THE
RESPONSE OF THE WELFARE RECIPIENTS LEAGUE, INC.**

The response of The Welfare Recipients League, Inc. (WRL), to our report contains several errors and misstatements. Below, we comment on some of them.

The boxed quotation on page 43 is incorrect. On page 8 of our report we state that "we could not conclude that the expenditures were inappropriate because the WRL did not have all its financial records available for our review." (emphasis added) The WRL's boxed comment on page 44 is also incorrect. The WRL was asked to comment on all sections of the report that pertain to the WRL. Since the report is directed to the Department of Economic Opportunity and includes information unrelated to the WRL's contract, it would not be appropriate for the WRL to comment on the entire report.

The WRL claims that the Economic Social Opportunities, Inc. (ESO), alleged that the WRL did not maintain a general ledger. This statement is not correct. In Appendix A, we list the allegations made by the ESO against the WRL. The list does not include any reference to the WRL's general ledger.

The WRL also claims that the president stated that the WRL's general ledger for contract year 1983-84 and other documents were destroyed or removed and that a police report is on file to verify this "fact." In a letter to the Auditor General dated June 6, 1987, the president of the WRL's board of directors responded to our request that the WRL identify the missing financial records by stating "I realize that the police reports do not indicate exactly what records were taken, and we do not have the staff to do an inventory to determine exactly what is missing...." We reviewed two police reports on thefts at the WRL office, but they did not specify which records were stolen. According to the police reports, these thefts occurred on February 17, 1987, and either March 2 or March 3, 1987.

Finally, the WRL claims to have reimbursed the LIHEAP account from its general fund for expenditures for magazine subscriptions, veterinary fees, its food closet, etc. However, as we state on page 12 of our report, we could not determine if the LIHEAP account was ever reimbursed because the WRL does not have complete financial records. Moreover, the department's chief deputy director stated that these expenditures are not now and have never been acceptable uses of LIHEAP funds. In addition, the department's monitoring staff are not allowed to approve the transfer or use of funds for LIHEAP purchases unrelated to energy assistance.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps